MINUTES

CHANGE IN EMPLOYEE COMPENSATION COMMITTEE

DATE:	Thursday, January 09, 2020
TIME:	3:00 P.M.
PLACE:	Room EW42
MEMBERS PRESENT:	Senators Co-chairman Patrick, Agenbroad, Lakey, Guthrie, Ward-Engelking Representatives Co-chairman Anderson, Holtzclaw, Syme, Kingsley, Gannon
ABSENT/ EXCUSED:	Rep. Kingsley

Co-chairman Anderson called the meeting to order at 3:04 pm.

Alex Adams, Administrator of the Department of Financial Management, presented **Governor Little's** fiscal year 2021 Change in Employees Compensation (CEC) recommendations. Mr. Adams indicated the Governor's recommendations align with Department of Human Resources (DHR) recommendations to increase the salary structure by 3% in an effort to continue toward the market average, to continue current payline exemptions for job classifications which target specific recruiting and retention situations, to increase the merit-based salary component by 2%, and to maintain the overall design of the benefit package and percentage contribution for employee benefits. Increasing the salary structure will impact 318 employees and incur an $87,000 cost increase to the general fund; without this additional funding, agency directors would have to direct more of their CEC to pay for this. Increasing the merit-based component by 2% will result in a $19.2 million cost increase to the general fund. Mr. Adams indicated maintaining payline exceptions requires no additional appropriation.

On the matter of health insurance, **Mr. Adams** indicated the initial cost projection to be $13,800 per full-time employee (FTE); however, lower claim numbers reduced the cost to $12,150 per FTE. Additionally, federal repeal of the annual health insurance tax resulted in a new final projected cost of $11,630 per FTE. The Governor's recommendation budgeted $11,650 per FTE which results in $22 million savings from the original projection. This is budgeted at the 90th percentile, with a $52.3 million projected reserve balance which exceeds the $33 million needed to meet contractual obligations and is below the federally allowed limit of $54.5 million. Budgeting at the 90th percentile, actuarily speaking, means the resulting reserve balance will be enough to absorb total claim fluctuations in 9 out of 10 three-year periods as well as give the state flexibility to explore other options like self-funding.

Committee members pointed out with increasing rent, property taxes, and insurance copays and deductibles, a 2% increase doesn't seem to keep pace with the economy. Reflecting on last year's increase, the question was raised why the proposal wasn't for another 3%, in line with last year's growth. Further discussion included growth is not paying for itself, and salary increases won't solve the problem of increased property tax burdens. After verifying the recommendations were composed after the economic upturn, the Committee acknowledged they may deviate from the recommendations of the Governor. **Mr. Adams** suggested DHR weigh in on the reasoning.

To verify the impact of the reserves balance, **Mr. Adams** deferred to **Jennifer Pike**, Office of Group Insurance Administrator, who indicated part of the reserve is used to arrive at the target numbers; however, reserves aren't being drawn as much as they have been historically. She indicated the year began with $75 million in the reserve and ended with $64 million, but by implementing the Governor's recommendation it will drop to $52.5 million. In response to concerns about drawing on the reserve every year to lower insurance premiums and questions about the cost of self-insure models, Ms. Pike indicated any insurance funding model will need a reserve due to claim security, but the level of reserve was up for discussion. She also noted regardless of the model, claims drive cost, and although efficiencies could drive the costs down, at the current rate, no reserve will remain without an increase in money. In response to Committee concerns, Ms. Pike commented the Governor has recommended a line item to further study self-insuring. She offered to provide the year over year cost with the reserve to the Committee in the next few days.

Co-chairman Anderson introduced the testimony from agency directors, stating the Committee solicited written comments from state employees. Noting copies are available to Committee members, he summarized some trends from the written comments: 1. Frustration with newly hired people entering at a similar or higher wage as those with several years with the agency, 2. Treasure Valley housing costs, 3. Benefits are good, but they don't pay the daily bills, 4. Cost to attract and retain new employees vs. retaining those already working.

Janet Gallimore, Executive Director, Idaho State Historical Society testified **in support** of the Governor's recommendation, stating the Society has 57 full-time employees, over 20 part time employees, and over 200 volunteers working to fulfill their mission across the state. Ms. Gallimore emphasized salaries must be more competitive relative to state midpoint because they face special challenges in low wage and leadership positions due to salary, high turnover, and difficulty in recruitment. She stated reducing CEC for unfilled positions would negatively impact the society because while they're recruiting, they need to be competitive among highly qualified professionals.

Paul Kline, Deputy Director, Department of Fish and Game, submitted written testimony, so he limited his verbal testimony. In his experience, consistent pay increases have made a remarkable impact in the Department, especially in competing for and retaining highly qualified employees invaluable to accomplishing goals critical to the success of the department. Currently, total compensation in the department is 12% below market rate, compared to earlier in his career when it was 17-20% below market rate. The efforts have increased entry level salary rates and increased merit-based pay practices which makes the department competitive with other employers in the state, even when times are tough. Lastly, the morale of the department is evidence to the success of this approach to pay. Mr. Kline requested the committee to continue to support performance-based changes to compensation.

Colonel Kedrick Wills, Director, Idaho State Police (ISP), testified **in support** of the 2% CEC recommendation by the Governor and the 3% structure move, because they support recruiting and retaining quality employees in a tight labor market, especially in the tough job of law enforcement. Merit-based raises give supervisors latitude to reward the highest performing employees, while the 3% structure move helps with compression issues. Col. Wills concurred with previous testimony that it is essential to fund all positions, not only those which are filled. If unfilled positions went unfunded, in the case of ISP, those hired after the arbitrary date wouldn't get the CEC, which would impact half of the academy graduates. As an example of compression, Col. Wills explained 11 employees at the top of the pay grade at ISP would miss out on CEC and as the department's top performers, this would essentially punish those employees for being the best.

Dave Jeppesen, Director, Health and Welfare, testified **in support** of the Governor's recommendations. In preparation for this testimony, Mr. Jeppesen visited 2,500 employees in the last year. He knows these jobs are tough, but the employees still show up because they're passionate and compassionate—but this doesn't pay the bills. FY19 was the fourth consecutive year of increasing voluntary turnover at about 14%, above state average. 215 exit interviews stated the reasons for leaving, the most popular being going to a higher paying job with an average pay increase of 30%. Direct care positions have the highest turnover, but they also require licensures or degrees. With the low unemployment rate, it's harder to fill these roles. Last year's CEC allowed the Department to increase the minimum starting salary and 2,600 employees received raises. Mr. Jeppesen emphasized the importance of giving directors flexibility to address compensation priorities for turnover hot spots.

Josh Tewalt, Director, Department of Correction, testified **in support** of the recommendations based on the value of human capital in state government. The Department employs over 2,000 staff across 120+ job classifications, many of which compete with other entry level jobs across the valley. On any given day, the Department has 150 vacancies. Thanks to past investments, vacancies were reduced by 40 per month. Funding flexibility allows reinvestment in current employees and is crucial to addressing emergencies. Due to fiscal flexibility and other strategies, the Department has decreased the number of people they lose to other states and county jails with higher pay rates. After starting pay was raised, retention increased, and 15% less was spent on overtime.

Jeff Anderson, Director, Idaho State Liquor Division, testified **in support** of the recommendations. The hours of their locations make it impossible to have classified employees on-site constantly, so they rely on group/temporary employees. These employees' wage hasn't changed in two years; CEC has never been provided to group positions. Proximity to Washington where the same job pays $13.50/hour causes loss of employees to the other state. Including group positions would help solve retention problems. The Division's markup formula yields a very good return for Idaho, although alcohol/lottery consumption is low compared to other states.

Susan Buxton, Administrator, Division of Human Resources, discussed turnover in Idaho. The national average is 23% total turnover, 17.1% of which is voluntary; in contrast, Idaho's total turnover is 14.9%. In response to questions, Ms. Buxton stated anybody who leaves an agency for another government agency is shown as voluntary turnover. She continued to clarify the situations in which the six-month employment probation happens, the flexibility in individual agency budgets, and target positions for equity adjustments. She asserted agencies are striving to fill hard to fill positions, which often require a lot of education, experience and other requirements. These positions take longer to recruit in a small state like Idaho.

Robyn Lockett, Principal Budget and Policy Analyst, Legislative Services Office, presented documents requested at the previous Committee meeting. In addition to the 2% CEC, state agencies have requested an additional 23 line items related to compensation, for a total of $2.6 million. The Budget Book shows agency budget requests side by side with the Governor's recommendation.

C0-chairman Anderson reminded the Committee it has been empowered to study the employee compensation plan and make a recommendation to JFAC, which they have followed in the past. He encouraged Committee members to decide on the four recommendations **Mr. Adams** presented. He instructed proposed motions to be submitted to a chair by the following Wednesday to review in the next meeting.

ADJOURN: There being no further business to come before the Committee, the meeting adjourned at 5:22 pm.

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Co-chair

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Erica McGinnis
Secretary

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Co-chair